

PAYSON CITY CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2006

PAYSON CITY CORPORATION

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Payson, Utah

December 18, 2006

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City as of and for the year ended, June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Payson City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2006, on our consideration of the Payson City's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Payson City's basic financial statements. The combining and individual non-major fund financial statement and impact fee analysis are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The impact fee schedule has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.


GILBERT & STEWART
Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Payson City, we offer readers of the Payson City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. The narrative is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues including identifying changes in the City's financial position (its ability to address the next and subsequent years challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the Transmittal Letter and the City's financial statements.

Because the City implemented new reporting standards last fiscal year with significant changes in content and structure, comparisons should be more meaningful and will go further in explaining the City's financial position and result of operations.

FINANCIAL HIGHLIGHTS

- The total net assets of Payson City increased by \$3,593,844 from \$44,143,405 to \$47,737,249. Of this increase, the governmental net assets increased by \$2,164,287 from \$20,779,325 to \$22,943,612 and the business-type net assets increased by \$1,429,557 from \$23,364,080 to \$2,4793,637.
 - The increase in Governmental funds is mostly made up of increases in fixed assets, including: trail/park improvements, completion of the Development Services remodel along with other facility improvements, and various vehicle and equipment purchases.*
 - Business-type fund (also referred to as enterprise funds) net asset increases were also mainly in the fixed asset category with improvements to reservoirs, lateral 20 and Spring Lake.*
- * (An extended list of new assets is in more detail below under heading "Capital Assets and Debt Administration").
- The total net assets of \$47,737,249 is made up of \$42,240,195 in capital assets net of related debt and \$5,497,054 in other net assets.
- The General Fund (the primary operating fund) had an increase in its fund balance of \$108,709. Payson City recognizes that the General Fund Balance is higher than allowed by State Statute. However we have planned some projects to reduce the balance and there is a large deficit in the RDA/EDA Fund Balance. We haven't felt good about forgiving the debt in the RDA/EDA, until we knew what the new State laws would be regarding RDA's and whether we would be able to receive haircut money. Once that balance is transferred from the General Fund to the RDA/EDA, our General Fund Balance will be brought down within the State limits.
- Total long-term liabilities of the City went down from \$24,972,287 to \$23,447,033, which includes all debt owing (bonds, leases, compensated absences, and Landfill Post-closure liability) as of June 30, 2006. However, we want to note that the City issued \$4,500,000 Sewer Revenue Bonds and \$8,865,000 shortly after the end of fiscal year 2006.

REPORTING THE CITY AS A WHOLE

The discussion and analysis is intended to serve as an introduction to Payson City's basic financial statements. Payson City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Payson City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Payson City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Payson City is improving or deteriorating. However, you will also need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Payson City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities or enterprise funds).

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Payson City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: government funds, proprietary funds, and fiduciary funds.

- **Governmental funds** – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental fund (as determined by generally accepted accounting principles) is the General Fund and Special Revenue Fund (RDA Business Park). Also listed separately is the Capital Project Funds. The balance of the governmental funds are determined to be non-major and are included in the combining statements within this report.

- Proprietary funds – Payson City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Payson City uses enterprise funds to account for its Water Utility, Electric Utility, Sewer Utility, Solid Waste Utility, Storm Drainage Utility, Golf Course Operations, and Ambulance Services. Internal service funds are an accounting device used to accumulate and allocate costs internally among Payson City's various functions. The City is using one internal service fund for maintenance of its vehicles and equipment. Because this service primarily benefit governmental activities, it has been included with governmental activities in the government-wide financial statements.

As determined by generally accepted accounting principles, the Electric, Water, and Sewer enterprise funds satisfy the criteria for major fund classification. The other enterprise funds are classified as non-major and are included in the combining statements within this report.

- Fiduciary funds – These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting method used for these funds is much like that used for proprietary funds. They are included in non-major governmental funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Payson City, assets exceed liabilities by \$47,737,249.

By far the largest portion of Payson City's net assets (88.5%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes Payson City's Net Assets:

Net Assets

June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	4,040,697	3,379,514	5,504,512	6,471,978	9,545,209	9,851,492
Capital assets	25,387,506	24,711,485	39,319,074	37,843,326	64,706,580	62,554,811
Total assets	29,428,203	28,090,999	44,823,586	44,315,304	74,251,789	72,406,303

Other liabilities	1,733,792	1,837,107	1,421,193	1,339,352	3,154,985	3,176,459
Long-term liabilities outstanding	<u>4,750,799</u>	<u>5,474,566</u>	<u>18,608,756</u>	<u>19,611,872</u>	<u>23,359,555</u>	<u>25,086,438</u>
Total liabilities	<u>6,484,591</u>	<u>7,311,673</u>	<u>20,029,949</u>	<u>20,951,224</u>	<u>26,514,540</u>	<u>28,262,897</u>
Net assets:						
Invested in capital assets, net						
of related debt	20,636,707	19,236,919	21,603,488	19,227,855	42,240,195	38,464,774
Restricted	697,949	533,563	3,092,811	3,188,630	3,790,760	3,722,193
Unrestricted	<u>1,608,956</u>	<u>1,008,843</u>	<u>97,338</u>	<u>947,595</u>	<u>1,706,294</u>	<u>1,956,438</u>
Total net assets	<u>22,943,612</u>	<u>20,779,325</u>	<u>24,793,637</u>	<u>23,364,080</u>	<u>47,737,249</u>	<u>44,143,405</u>

The following table summarizes Payson City's Change in Net Assets:

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	1,027,952	1,117,286	15,525,790	14,505,889	16,553,742	15,623,175
Operating grants and contribs	289,306	294,295			289,306	294,295
Capital grants and contribs	1,297,761	639,121	1,872,300	819,246	3,170,061	1,458,367
General revenues:						
Property taxes	1,057,063	1,048,846			1,057,063	1,048,846
General sales and use tax	2,128,181	1,826,194			2,128,181	1,826,194
Motor Vehicle Taxes	146,898	122,252			146,898	122,252
Utility Tax	926,683	779,654			926,683	779,654
Other Taxes	275,575	294,687			275,575	294,687
Impact Fees	287,730	432,965	580,158	918,419	867,888	1,351,384
Gain (Loss) on Sale of Assets			8,551	288,822	8,551	288,822
Special Assessments	131,380	131,870			131,380	131,870
Unrestricted investment earnings	121,645	66,964	194,001	113,492	315,646	180,456
Transfers	2,331,367	2,736,365	(2,698,729)	(3,151,049)	(367,362)	(414,684)
Other	<u>72,932</u>	<u>82,642</u>			<u>72,932</u>	<u>82,642</u>
Total revenues	<u>10,094,473</u>	<u>9,573,141</u>	<u>15,482,071</u>	<u>13,494,819</u>	<u>25,576,544</u>	<u>23,067,960</u>
Expenses:						
General government	2,588,153	2,623,888			2,588,153	2,623,888
Public safety	2,239,061	2,072,252			2,239,061	2,072,252
Highways and public works	969,133	870,504			969,133	870,504
Parks and recreation	1,367,102	1,420,543			1,367,102	1,420,543
Economic Development	403,114	302,670			403,114	302,670
Cemetery	96,275	85,485			96,275	85,485
Interest on long-term debt	267,348	112,465			267,348	112,465
Water			1,440,080	1,258,298	1,440,080	1,258,298
Electric			9,089,221	8,254,189	9,089,221	8,254,189
Sewer			1,237,978	1,066,035	1,237,978	1,066,035
Solid Waste			922,901	799,276	922,901	799,276
Golf			819,578	773,874	819,578	773,874
Storm Drain			353,203	205,199	353,203	205,199
Ambulance			189,553	196,577	189,553	196,577

Total expenses	<u>7,930,186</u>	<u>7,487,807</u>	<u>14,052,514</u>	<u>12,553,448</u>	<u>21,982,700</u>	<u>20,041,255</u>
Increase in net assets	<u>2,164,287</u>	<u>2,085,334</u>	<u>1,429,557</u>	<u>941,371</u>	<u>3,593,844</u>	<u>3,026,705</u>
Net assets - beginning	<u>20,779,325</u>	<u>18,693,991</u>	<u>23,364,080</u>	<u>22,422,709</u>	<u>44,143,405</u>	<u>41,116,700</u>
Net assets - ending	<u>22,943,612</u>	<u>20,779,325</u>	<u>24,793,637</u>	<u>23,364,080</u>	<u>47,737,249</u>	<u>44,143,405</u>

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

As of June 30, 2006, the City's governmental funds (General, Debt Service, & Special Revenue) reported combined fund balance of \$2,111,206. This represents an increase of \$919,270 from last year's ending balances, with the General Fund portion increasing by \$108,709. The City holds a generous General Fund balance, which is over the State limit—however Management feels that this balance is needed to cover the deficit in the Redevelopment Agencies. With laws changing and the RDA nearing its end, we feel that the General Fund Balance will need to be transferred to the RDA's.

The General Fund is the chief operating fund of the City. All activities, which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses, are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 81.5% of total general fund revenues. The largest element of taxes is sales tax as it has been for the last several years, and continues to increase. It represents 46.9% of total tax revenues and represents \$2,128,181 of total general fund revenues.

As stated earlier, the City maintains several enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund budget was amended from an original budget expenditure total of \$7,477,935 to a final budget of \$7,653,101 to accommodate additional expenditures needed in various departments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – Payson City's investment in capital assets for all activities as of June 30, 2006, amounts to \$64,706,580. (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, etc.), and machinery and equipment.

Major capital asset events during the this fiscal year included the following:

- New Spillman Computer Equipment/Program for the Police Department \$87,048
- Improvements to the Dry Creek Trail Project & Playground Equipment \$249,236.
- Improvements to Lateral 20 \$459,497
- Improvements at Pete Winward Reservoir \$132,645
- New Water Meters \$302,567
- Beginning of Spring Lake Dredging \$222,883
- Completion of the Development Services Department Remodel \$45,000
- Carpet for City Council Chambers \$7,794
- Library Roof \$17,300
- Automated Door for Sr. Center \$5300
- HVAC Unit \$18,300
- Fire Station Overhead Door \$16,908
- Ambulance Copy Machine \$6,700
- Various Vehicle and Equipment Purchases: 2 Dump Trucks \$205,508; 3 Police Vehicles \$71,240; Ambulance \$120,836; Electric Department Truck \$10,500; Water Department Truck \$30,000; Solid Waste Department Truck, Garbage Truck, and Containers \$141,379; Electric Department Backhoe \$40,000; Parks Department Bobcat \$32,245; Miscellaneous Fire Department Equipment and Water Tank \$51,169; and Miscellaneous Golf Equipment and Carts \$218,350.

The following table summarizes Payson City's changes in Capital Assets:

June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Invested in capital assets, net						
Land	3,800,477	3,800,477	7,040,381	7,040,381	10,840,858	10,840,858
Building	1,094,771	1,146,257	614,247	638,070	1,709,018	1,784,327
Equipment	1,244,402	1,273,377	1,531,462	1,152,942	2,775,864	2,426,319
Water Shares			198,400	198,400	198,400	198,400
Improvements	4,280,151	4,114,349	29,934,584	28,813,533	34,214,735	32,927,882
Infrastructure	14,967,705	14,377,025			14,967,705	14,377,025
Total net assets	<u>25,387,506</u>	<u>24,711,485</u>	<u>39,319,074</u>	<u>37,843,326</u>	<u>64,706,580</u>	<u>62,554,811</u>

The City has adopted the modified approach for reporting, where infrastructure assets are not depreciated, and maintenance and preservation costs are expensed. The City capitalizes costs related to new construction or major replacements under the modified approach.

The City manages its streets with the Iwork computer program to help oversee the policies set by the City.

The most recent assessment found that the City's streets were within the prescribed parameters with 78% having a pavement condition with service life of 12 years or better and less than 2% of the streets having a pavement condition less than 2 years service life.

Over the last five reporting years, the estimated amounts needed and actual expenditures utilized to maintain and preserve the City's road system are as follows (capital expenditures are not included):

<u>Year</u>	<u>Budgeted</u>	<u>Expenditures</u>
2002	\$741,500	\$454,791
2003	585,500	683,766
2004	226,383	223,119
2005	372,986	368,768
2006	82,500	181,189

Additional information on the City's capital assets can be found in the footnotes to this financial report and also the supplemental section.

Long-term debt – At June 30, 2006, the City had total bonded debt outstanding of \$23,447,033. Of this the amount considered to be general obligation debt backed by the full faith and credit of the City include the ball field line of credit for \$1,505,500 (with the remaining amount owing \$708,470); the Pit SID, of which Payson City put in infrastructure, for \$2,405,000 (with the remaining amount owing \$2,080,000) and some Property Lease Payments for the Hwy 198/UDOT Project \$305,000. We want to note that the City issued \$4,500,000 Sewer Revenue Bonds and \$8,865,000 Sales Tax Bonds shortly after the end of fiscal year 2006. (It is anticipated that the Golf Course Portion of the Sales Tax Bonds will be paid from proceeds from the sale of land at the golf course rather than Sales Tax Revenue).

The following table summarizes Payson City's Changes in Debt:

June 30, 2006 and 2005

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Bonds Payable	3,642,000	4,241,000	17,062,000	18,140,000	20,704,000	22,381,000
Notes Payable	305,000	19,366			305,000	19,366
Capital Lease	803,799	1,214,200	653,586	475,471	1,457,385	1,689,671
Accrued Compensated Absences	453,939	407,505	359,713	339,902	813,652	747,407
Water Share Liability			166,966	134,843	166,966	134,843
Total Debt Payable	<u>5,204,738</u>	<u>5,882,071</u>	<u>18,242,265</u>	<u>19,090,216</u>	<u>23,447,003</u>	<u>24,972,287</u>

The State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The unemployment rate for Utah County (of which Payson is a part of) was 2.8% compared with a state unemployment rate of 3.0% and a national rate of 4.6%. (Source: Utah Dept of Workforce Services). Utah County's rate in 2005 was 3.9%

- The General Fund budget for fiscal year ending June 30, 2007 reflects an increase in expenditures of \$157,579 over the final budget for the fiscal year ended June 30, 2006.
- The City Council also voted the Certified Tax Rate at .001492.
- Some capital improvements planned for and budgeted in the FY 2007 budget include:
 - Main Street Breezeway \$85,000
 - Completion of Spring Lake Dredging \$200,000
 - Golf Course Redesign \$2,000,000
 - Completion of Soccer Fields \$171,057
 - East Side Sewer Main \$4,500,000
 - Begin First Stages and Architecture for Construction of the Swimming Pool \$6,865,000
 - Renovation of the Ambulance Building \$114,700
 - Dry Creek SR 198 Reconstruction (in conjunction with UDOT Road Widening etc.) \$110,000
 - And other Miscellaneous Park & Road Improvements

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Payson City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or request for additional financial information should be addressed to: City Recorder, Payson City, 439 W. Utah Avenue, Payson, UT 84651.

BASIC FINANCIAL STATEMENTS

PAYSON CITY CORPORATION
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 945,979	\$ 750,953	\$ 1,696,932
Accounts Receivable (Net of Allowance for Uncollectables)	1,383,607	1,660,154	3,043,761
Prepaid Items		136,000	136,000
Notes Receivable	60,259	-	60,259
Restricted Assets:			
Cash and Cash Equivalents	1,645,852	2,683,135	4,328,987
Bond Issuance Costs (Net of Accumulated Amortization)	5,000	274,270	279,270
Capital Assets (Net of Accumulated Depreciation)			
Water Shares	-	198,400	198,400
Land	3,800,477	7,040,381	10,840,858
Buildings	1,094,771	614,247	1,709,018
Improvements	4,280,151	29,934,584	34,214,735
Machinery and Equipment	1,244,402	1,531,462	2,775,864
Infrastructure	14,967,705	-	14,967,705
Total Assets	29,428,203	44,823,586	74,251,789
Liabilities			
Accounts Payable	247,911	65,087	312,998
Interest Payable	119,067	182,600	301,667
Other Current Liabilities	253,217	497,100	750,317
Compensated Absences	453,939	359,713	813,652
Water Share Liability	-	166,966	166,966
Deferred Revenue	659,658	-	659,658
Bond Premiums (Net)	-	149,727	149,727
Long-Term Liabilities:			
Due Within One Year	1,073,520	1,485,703	2,559,223
Due In More Than One Year	3,677,279	16,229,883	19,907,162
Closure and Postclosure Liability	-	893,170	893,170
Total Liabilities	6,484,591	20,029,949	26,514,540
Net Assets			
Invested in Capital Assets, Net of Related Debt	20,636,707	21,603,488	42,240,195
Restricted for:			
Debt Service	14,631	2,207,961	2,222,592
Class "C" Roads	85,082	-	85,082
Impact Fees	593,527	409,870	1,003,397
Grant Funds	4,709	-	4,709
Landfill Closure Costs	-	474,980	474,980
Unrestricted (Deficit)	1,608,956	97,338	1,706,294
Total Net Assets	\$ 22,943,612	\$ 24,793,637	\$ 47,737,249

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Activities
For the Year Ended June 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 2,588,153	\$ 270,123	\$ 33,490	-	\$ (2,284,540)		\$ (2,284,540)
Public Safety	2,239,061	211,684	229,768	-	(1,797,609)		(1,797,609)
Highways and Streets	969,133	-	8,447	1,191,429	230,743		230,743
Parks and Recreation	1,367,102	527,460	17,601	106,332	(715,709)		(715,709)
Economic Development	403,114	-	-	-	(403,114)		(403,114)
Cemetery	96,275	18,685	-	-	(77,590)		(77,590)
Interest on Long-Term Debt	267,348	-	-	-	(267,348)		(267,348)
Total Governmental Activities	7,930,186	1,027,952	289,306	1,297,761	(5,315,167)		(5,315,167)
Business-Type Activities:							
Water	1,440,080	1,736,509		1,457,977		\$ 1,754,406	1,754,406
Electric	9,089,221	9,378,459		12,700		301,938	301,938
Sewer	1,237,978	1,513,753		231,108		506,883	506,883
Solid Waste	922,901	1,482,385		-		559,484	559,484
Golf	819,578	613,397		-		(206,181)	(206,181)
Storm Drain	353,203	527,261		136,112		310,170	310,170
Ambulance	189,553	274,026		34,403		118,876	118,876
Total Business-Type Activities	14,052,514	15,525,790	-	1,872,300	-	3,345,576	3,345,576
Total Primary Government	\$ 21,982,700	\$ 16,553,742	\$ 289,306	\$ 3,170,061	(5,315,167)	3,345,576	(1,969,591)

General Revenues

Taxes:

Property Taxes	\$1,057,063	-	1,057,063
General Sales Taxes	2,128,181	-	2,128,181
Motor Vehicle Taxes	146,898	-	146,898
Utility Taxes	926,683	-	926,683
Other Taxes	275,575	-	275,575
Special Assessments	131,380	-	131,380
Gain (Loss) on Sale of Capital Asset	-	8,551	8,551
Impact Fees	287,730	580,158	867,888
Investment Earnings	121,645	194,001	315,646
Miscellaneous	72,932	-	72,932
Transfers	2,331,367	(2,698,729)	(367,362)
Total General Revenues and Transfers	7,479,454	(1,916,019)	5,563,435
Change in Net Assets	2,164,287	1,429,557	3,593,844
Net Assets Beginning of Year	20,779,325	23,364,080	44,143,405
Net Assets End of Year	\$ 22,943,612	\$ 24,793,637	\$ 47,737,249

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Balance Sheet
Governmental Funds
June 30, 2006

	General	Special Revenue Fund RDA Business Park	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 945,979	\$ -	\$ -	\$ -	\$ 945,979
Accounts Receivable (Net of Allowance for Uncollectables)	1,277,275	-	-	106,332	1,383,607
Due From Other Funds	2,469,006	-	-	72,820	2,541,826
Notes Receivable	-	-	-	60,259	60,259
Restricted Assets:					
Cash and Cash Equivalents	204,139	-	488,779	952,934	1,645,852
Total Assets	\$ 4,896,399	\$ -	\$ 488,779	\$ 1,192,345	\$ 6,577,523
Liabilities					
Accrued Liabilities	\$ 244,253	\$ -	\$ 1,002	\$ 522	\$ 245,777
Due To Other Funds	-	2,157,575	202,264	199,729	2,559,568
Deposits	253,217	-	-	-	253,217
Interest Payable	-	10,643	-	-	10,643
Deferred Revenue	692,112	-	-	-	692,112
Bonds Payable	-	705,000	-	-	705,000
Total Liabilities	1,189,582	2,873,218	203,266	200,251	4,466,317
Fund Balances					
Reserved for:					
Debt Service	-	-	-	14,631	14,631
Class "C" Roads	85,082	-	-	-	85,082
Impact Fees	-	-	-	593,527	593,527
Grant Funds	-	-	-	4,709	4,709
Unreserved:					
Designated:					
General Fund	127,892	-	-	-	127,892
Undesignated (Deficit), Reported in:					
General Fund	3,493,843	-	-	-	3,493,843
Permanent Fund	-	-	-	579,478	579,478
Capital Project Fund	-	-	285,513	-	285,513
Special Revenue Funds	-	(2,873,218)	-	(200,251)	(3,073,469)
Total Fund Balances (Deficits)	3,706,817	(2,873,218)	285,513	992,094	2,111,206
Total Liabilities and Fund Balances	\$ 4,896,399	\$ -	\$ 488,779	\$ 1,192,345	\$ 6,577,523

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total Governmental Funds Balances		\$ 2,111,206
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		25,155,988
Long-term Assets not available to pay for current period expenditures and, therefore, are deferred in the funds.		32,454
An internal service fund is used by management to charge the costs of vehicle repairs and maintenance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		113,579
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
Special Assessment Bonds	\$ (3,945,470)	
Accrued Interest Payable	(108,424)	
Compensated Absences	(415,721)	
Total		<u>(4,469,615)</u>
Net Assets of Governmental Activities		<u><u>\$ 22,943,612</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General	Special Revenue Fund RDA Business Park	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Property Taxes	\$ 736,350	\$ 153,143	\$ -	\$ 167,713	\$ 1,057,206
General Sales Taxes	2,128,181	-	-	-	2,128,181
Motor Vehicle Taxes	146,898	-	-	-	146,898
Utility Taxes	926,683	-	-	-	926,683
Other Taxes	275,575	-	-	-	275,575
Licenses and Permits	245,298	-	-	-	245,298
Intergovernmental	890,055	-	-	106,332	996,387
Charges for Services	611,674	-	-	18,685	630,359
Fines and Forfeitures	152,295	-	-	-	152,295
Special Assessments	-	-	-	131,380	131,380
Interest	57,426	-	18,944	45,275	121,645
Miscellaneous	72,932	-	-	-	72,932
Total Revenues	6,243,367	153,143	18,944	469,385	6,884,839
Expenditures					
Current:					
General Government	2,448,568	-	-	-	2,448,568
Public Safety	2,196,872	-	-	-	2,196,872
Highways and Streets	666,613	-	-	-	666,613
Parks and Recreation	1,305,874	-	-	16,796	1,322,670
Economic Development	196,830	52,141	-	70,195	319,166
Cemetery	96,275	-	-	-	96,275
Debt Service:					
Principal Retirement	-	-	461,218	114,326	575,544
Interest and Fiscal Charges	328,038	43,471	161,336	32,285	565,130
Capital Outlay:					
Highways and Streets	228,710	-	-	-	228,710
Culture and Recreation	-	-	101,212	307,917	409,129
Economic Development	-	44,081	-	16,908	60,989
Total Expenditures	7,467,780	139,693	723,766	558,427	8,889,666
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,224,413)	13,450	(704,822)	(89,042)	(2,004,827)
Other Financing Sources (Uses)					
Impact Fees	-	-	-	287,730	287,730
Bonds Issued	305,000	-	-	-	305,000
Transfers In	2,617,983	-	1,318,245	-	3,936,228
Transfers Out	(1,589,861)	-	-	(15,000)	(1,604,861)
Total Other Financing Sources (Uses)	1,333,122	-	1,318,245	272,730	2,924,097
Net Change in Fund Balances	108,709	13,450	613,423	183,688	919,270
Fund Balances (Deficits) Beginning of Year	3,598,108	(2,886,668)	(327,910)	808,406	1,191,936
Fund Balances (Deficits) End of Year	\$ 3,706,817	\$ (2,873,218)	\$ 285,513	\$ 992,094	\$ 2,111,206

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 919,270

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. This is the amount by which capital
outlays exceeded depreciation in the current period.

224,968

The net effect of various miscellaneous transactions involving capital
assets (I.e., sales, trade-ins, and donations) is to increase (decrease)
net assets.

590,680

The issuance of long-term debt (e.g., bonds, leases) provide current
financial resources to governmental funds, while the repayment
of principal of long-term debt consumes the current financial
resources of governmental funds. Neither transaction, however,
has any effect on the net assets. This amount is the net effect of
these differences in the treatment of long-term debt and related items.

526,008

Some expenses reported in the statement of activities do not require the
use of current financial resources and, therefore, are not reported
as expenditures in the governmental funds.

(143)

The internal service funds used by management to charge the
the costs of insurance and workers' compensation to
individual funds are not reported in the entity-wide
statement of activities. Governmental fund expenditures
and related internal service fund revenues are eliminated.

(96,496)

Change in Net Assets of Governmental Activities

\$ 2,164,287

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Business Type Activities - Enterprise Funds					Internal Service Funds
	Water	Electric	Sewer	Other Enterprise Funds	Total	
Assets						
Current Assets:						
Cash and Cash Equivalents	\$ 172,698	\$ 386,798	\$ 191,457	\$ -	\$ 750,953	\$ -
Accounts Receivable (Net of Allowance for Uncollectables)	235,999	889,706	194,755	339,694	1,660,154	-
Due From Other Funds	695,335	202,252	-	809,656	1,707,243	17,742
Prepaid Items	-	136,000	-	-	136,000	-
Total Current Assets	1,104,032	1,614,756	386,212	1,149,350	4,254,350	17,742
Noncurrent Assets:						
Restricted Assets:						
Cash and Cash Equivalents	724,762	899,170	584,223	474,980	2,683,135	-
Bond Issuance Costs	271,946	106,405	-	-	378,351	-
Less Accumulated Amortization	(15,410)	(88,671)	-	-	(104,081)	-
Capital Assets:						
Water Shares	198,400	-	-	-	198,400	-
Land	6,711,439	116,337	157,482	55,123	7,040,381	-
Buildings	-	279,792	13,199	513,457	806,448	-
Improvements	14,341,610	15,839,125	17,438,585	3,296,064	50,915,384	-
Machinery and Equipment	107,385	720,870	267,808	3,237,923	4,333,986	1,539,545
Construction in Progress	-	-	-	-	-	-
Less Accumulated Depreciation	(5,841,273)	(8,371,732)	(6,088,338)	(3,674,182)	(23,975,525)	(1,308,027)
Total Capital Assets, Net	15,517,561	8,584,392	11,788,736	3,428,385	39,319,074	231,518
Total Noncurrent Assets	16,498,859	9,501,296	12,372,959	3,903,365	42,276,479	231,518
Total Assets	17,602,891	11,116,052	12,759,171	5,052,715	46,530,829	249,260
Liabilities						
Current Liabilities:						
Accrued Liabilities	3,982	40,161	2,329	18,615	65,087	2,134
Due to Other Funds	-	-	266,636	1,440,607	1,707,243	-
Compensated Absences Payable	58,148	155,908	21,454	124,203	359,713	38,218
Performance Bond	-	102,423	-	-	102,423	-
Bonds Payable	240,000	665,000	294,000	-	1,199,000	-
Interest Payable	58,031	19,869	104,700	-	182,600	-
Capital Leases Payable	-	-	-	286,703	286,703	81,482
Total Current Liabilities	360,161	983,361	689,119	1,870,128	3,902,769	121,834
Current Liabilities Payable from Restricted Assets:						
Customer Deposits Payable	-	394,677	-	-	394,677	-
Total Current Liabilities Payable from Restricted Assets	-	394,677	-	-	394,677	-
Long-Term Liabilities:						
Unamortized Bond Premiums (Net)	149,727	-	-	-	149,727	-
Revenue Bonds Payable (net of current portion)	9,050,000	695,000	6,118,000	-	15,863,000	-
Notes Payable (net of current portion)	-	-	-	-	-	-
Capital Leases Payable (net of current portion)	-	-	-	366,883	366,883	13,847
Closure and Postclosure Liability	-	-	-	893,170	893,170	-
Water Share Liability	166,966	-	-	-	166,966	-
Total Long-Term Liabilities	9,366,693	695,000	6,118,000	1,260,053	17,439,746	13,847
Total Liabilities	9,726,854	2,073,038	6,807,119	3,130,181	21,737,192	135,681
Net Assets						
Invested in Capital Assets, Net of Related Debt	6,227,561	7,224,392	5,376,736	2,774,799	21,603,488	136,189
Restricted for:						
Bond and Lease Requirements	724,568	899,170	584,223	-	2,207,961	-
Landfill Closure Costs	-	-	-	474,980	474,980	-
Impact Fees	93,788	248,951	67,131	-	409,870	-
Unrestricted	830,120	670,501	(76,038)	(1,327,245)	97,338	(22,610)
Total Net Assets	\$ 7,876,037	\$ 9,043,014	\$ 5,952,052	\$ 1,922,534	\$ 24,793,637	\$ 113,579

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Business Type Activities - Enterprise Funds					
	Water	Electric	Sewer	Other Enterprise Funds	Total	Internal Service Funds
Operating Revenues						
Charges for Services	\$ 1,729,365	\$ 9,307,715	\$ 1,506,063	\$ 2,695,354	\$ 15,238,497	\$ -
Miscellaneous	7,144	70,744	7,690	201,715	287,293	-
Total Operating Revenues	1,736,509	9,378,459	1,513,753	2,897,069	15,525,790	-
Operating Expenses						
Costs of Sales and Services	446,655	8,164,306	336,067	1,241,793	10,188,821	215,031
Maintenance Operations and Contractual Services	112,968	201,218	246,655	431,925	992,766	45,794
Materials and Supplies	168,058	172,182	31,805	206,999	579,044	22,959
Depreciation	277,295	471,578	360,272	368,277	1,477,422	163,126
Amortization	10,878	11,823	-	-	22,701	-
Total Operating Expenses	1,015,854	9,021,107	974,799	2,248,994	13,260,754	446,910
Operating Income (Loss)	720,655	357,352	538,954	648,075	2,265,036	(446,910)
Non-Operating Revenues (Expenses)						
Interest Income	37,370	103,414	33,586	19,631	194,001	-
Impact Fees	174,433	159,157	246,568	-	580,158	-
Grant Revenue	793,280	-	-	34,403	827,683	-
Gain (Loss) on Sale of Fixed Assets	-	-	-	8,551	8,551	-
Interest and Fiscal Charges	(424,226)	(68,114)	(263,179)	(36,241)	(791,760)	(4,562)
Total Non-Operating Revenues (Expenses)	580,857	194,457	16,975	26,344	818,633	(4,562)
Income (Loss) before Capital Contributions and Transfers	1,301,512	551,809	555,929	674,419	3,083,669	(451,472)
Capital Contributions	664,697	12,700	231,108	136,112	1,044,617	-
Transfers In	185,000	540,516	-	-	725,516	367,362
Transfers Out	(799,804)	(973,748)	(886,268)	(764,425)	(3,424,245)	-
Change in Net Assets	1,351,405	131,277	(99,231)	46,106	1,429,557	(84,110)
Net Assets Beginning of Year	6,524,632	8,911,737	6,051,283	1,876,428	23,364,080	197,689
Net Assets End of Year	\$ 7,876,037	\$ 9,043,014	\$ 5,952,052	\$ 1,922,534	\$ 24,793,637	\$ 113,579

PAYSON CITY CORPORATION
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Business Type Activities - Enterprise Funds					Internal
	Water	Electric	Sewer	Other Enterprise Funds	Total	Service Funds
Cash Flows from Operating Activities						
Receipts from Customers and Users	\$ 1,659,301	\$ 9,344,417	\$ 1,478,962	\$ 2,914,103	\$ 15,396,783	\$ -
Receipts from Interfund Services Provided	-	-	-	-	-	-
Payments to Employees for Services	(261,500)	(833,812)	(184,295)	(781,035)	(2,060,642)	(152,015)
Payments for Goods and Services	(1,069,151)	(7,320,864)	(172,139)	(1,135,905)	(9,698,059)	(108,445)
Net Cash Provided by (Used in) Operating Activities	328,650	1,189,741	1,122,528	997,163	3,638,082	(260,460)
Cash Flows from Noncapital Financing Activities						
Operating Grants Received	793,280	-	-	34,403	827,683	-
Transfers to Other Funds	(799,804)	(973,748)	(886,268)	(764,425)	(3,424,245)	-
Transfers from Other Funds	185,000	540,516	-	-	725,516	367,362
Net Cash Provided by (Used in) Noncapital Financing Activities	178,476	(433,232)	(886,268)	(730,022)	(1,871,046)	367,362
Cash Flows from Capital and Related Financing Activities						
Cash Contributions	250,000	-	-	-	250,000	-
Impact Fees	174,433	159,157	246,568	-	580,158	-
Proceeds from Capital Leases	-	-	-	398,093	398,093	-
Proceeds from Sale of Assets	-	-	-	-	-	-
Principal Paid on Revenue Bonds	(155,000)	(640,000)	(283,000)	-	(1,078,000)	-
Interest Paid on Revenue Bonds	(424,226)	(68,114)	(263,179)	-	(755,519)	(4,562)
Principal Paid on Capital Leases	-	-	-	(219,979)	(219,979)	(78,841)
Interest Paid on Capital Leases	-	-	-	(36,241)	(36,241)	-
Payments for Capital Acquisitions	(976,213)	(422,319)	(15,900)	(735,569)	(2,150,001)	(23,499)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(1,131,006)	(971,276)	(315,511)	(593,696)	(3,011,489)	(106,902)
Cash Flows from Investing Activities						
Interest Income Received	31,021	103,414	33,586	19,631	187,652	-
Net Increase (Decrease) in Cash and Cash Equivalents	(592,859)	(111,353)	(45,665)	(306,924)	(1,056,801)	-
Cash and Cash Equivalents Beginning of Year	1,490,319	1,397,321	821,345	781,904	4,490,889	-
Cash and Cash Equivalents End of Year	\$ 897,460	\$ 1,285,968	\$ 775,680	\$ 474,980	\$ 3,434,088	\$ -
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities						
Operating Income (Loss)	\$ 720,655	\$ 357,352	\$ 538,954	\$ 648,075	\$ 2,265,036	\$ (446,910)
Adjustments:						
Depreciation	277,295	471,578	360,272	368,277	1,477,422	163,126
Amortization	10,878	11,823	-	-	22,701	-
(Increase) Decrease in Assets:						
Accounts Receivable	(77,208)	(17,071)	(34,791)	17,034	(112,036)	-
Allowance for Uncollectable Accounts	-	-	-	-	-	-
Due From Other Funds	(578,873)	402,956	-	(222,135)	(398,052)	40,427
Increase (Decrease) in Liabilities:						
Accrued Liabilities	(2,830)	(59,851)	(4,637)	(10,064)	(77,382)	(21,219)
Customer Deposits	-	(16,971)	-	-	(16,971)	-
Performance Bond	-	46,142	-	-	46,142	-
Compensated Absences Payable	4,248	3,133	715	11,715	19,811	4,116
Water Share Liability	32,123	-	-	-	32,123	-
Accrued Interest	(57,638)	(9,350)	(4,621)	-	(71,609)	-
Due to Other Funds	-	-	266,636	131,416	398,052	-
Closure and Postclosure Care	-	-	-	52,845	52,845	-
Net Cash Provided by (Used in) Operating Activities	\$ 328,650	\$ 1,189,741	\$ 1,122,528	\$ 997,163	\$ 3,638,082	\$ (260,460)
Noncash investing, capital, and financing activities:						
Contributions of capital assets from developers	414,697	12,700	231,108	136,112	794,617	\$ -

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Payson City Corporation (the City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

Payson City is a political subdivision of the State of Utah. Payson City Corporation was incorporated in 1853 under the laws of the State of Utah. The City operates under a Mayor-Council form of government. The City provides municipal services under the following organizational structure.

Mayor and City Council: Mayor and City Council, Community Promotion, and Advisory Boards and Commissions.

City Administration: City Administrator, Risk Management, Emergency Operations, Recorder, Community and Neighborhood, and Computer Services.

Financial Services: Finance Director, Treasurer, Utilities, Accounting, Facilities, and Purchasing.

City Attorney: Legal Services, Prosecution, Civil and Environmental Law, and Personnel.

Development Services: Economic Development, Planning and Zoning, and Code Enforcement.

Public Safety: Police, Fire, Animal Control, and Emergency Medical Services.

Public Works: Streets, Engineering Parks, Fleet Maintenance, Water, Solid Waste Services, Water Reclamation, Street Lighting, and Storm Sewer Services.

Recreation: Swimming Pool Operations, Outdoor Recreation Programs, and Senior Citizen Programs.

Library: Library Administration, Collection Development, and Public Services.

PAYSON CITY CORPORATION
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The City is a municipal corporation governed by an elected five-member Council and Mayor. As required by generally accepted accounting principles, these financial statements present the City (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Redevelopment Agency is governed by a separate governing board, who are the City's Mayor and Council. The financial statements of the Redevelopment Agency are included in the accompanying financial statements as a blended component unit.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

PAYSON CITY CORPORATION
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Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Sales taxes, use taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenue when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund (RDA Business Park)* accounts for revenue and expenditures of promoting economic development in the City's business park area.

The *capital projects fund* accounts for the activities concerning the capital projects of the City.

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water production, treatment and distribution operations.

The *electric fund* accounts for the activities of the City's electric generation and distribution operations.

The *sewer fund* accounts for the activities of the City's sewer treatment operations.

PAYSON CITY CORPORATION
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Activities of these three funds include administration, operations and maintenance of the water, sewer and electric systems and billing and collection. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for all water, sewer and electric fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

Additionally the City reports the *internal service fund* to account for the costs of operating and maintaining vehicles and equipment owned by the City. The City also reports the following non-major fund type; Debt Service, Special Revenue and Proprietary.

As a general rule, the effect of interfund activity has been eliminated from the government financial statements. Exceptions to this general rule are payments to the general fund by various enterprise funds for the providing of administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and cash equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. City policy allows for the investment of funds in time certificates of deposit with Federally insured depositories, investment in the Utah Public Treasurer's Investment Fund (Fund) and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The Fund operates in accordance with state laws and regulations. The reported value of the City's cash in the Fund is the same as the fair value of the Fund shares.

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this definition.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "due to or due from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

PAYSON CITY CORPORATION
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3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Cash, which is restricted to a particular use due to statutory, budgetary or bonding requirements, is classified as "restricted cash" on the Statement of Net Assets and on the Balance Sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	30-50
Improvements other than buildings	20-50
Infrastructure	20-40
Machinery and equipment	5-10
Furniture and fixtures	5-10

PAYSON CITY CORPORATION
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Capital Assets (*Continued*)

The City has adopted an allowable alternative to reporting depreciation for its roads network. Under this alternative method, referred to as the "modified approach," the City must maintain an asset management system and demonstrate that its roads are being preserved at or above condition levels established by City policy. Infrastructure assets accounted for under the modified approach are not depreciated, and maintenance and preservation costs are expensed.

6. Compensated Absences

Payson City Corporation's personnel policy permits employees to accumulate earned, but unused, vacation time which will be paid to employees upon termination. At June 30, 2006, the total liability for compensated absences is \$813,652.

7. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt

PAYSON CITY CORPORATION
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issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

11. Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues and expenses. Actual results may vary from these estimates.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

Capital related items:

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the city as a whole.

Cost of capital assets	\$28,846,579
Accumulated depreciation	<u>(3,690,591)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>)	<u>\$25,155,988</u>

Long-term debt transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund statements. All liabilities (both current and long-term) are reported in the statement of net assets.

Accrued interest payable	\$ 108,424
Capital lease payable	708,470
Compensated absences	415,721
Bonds and notes payable	3,242,000
Less issuance cost (to be amortized over life of note)	<u>(5,000)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$4,469,615</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

Capital outlay	\$ 863,496
Depreciation expense	<u>(638,528)</u>
Net adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 224,968</u>

PAYSON CITY CORPORATION
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Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets."

The statement of activities reports *capital contributions* from developers as revenue. Conversely, governmental funds do not report any capital contributions from developers as revenue. \$ 590,680

Net adjustment to increase *net changes in fund balances* –
total governmental funds to arrive at *changes in net assets of*
governmental activities \$ 590,680

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Accrued Interest	\$ 22,766
Bond Payment	514,000
Lease Payment	331,560
Less: Compensated absence increases	(42,318)
Less: Net loan proceeds (\$305,000 less bond cost \$5,000)	(<u>300,000</u>)

Net adjustments to decrease *net changes in fund balances* -
total governmental funds to arrive at *changes in net*
assets of governmental activities \$ 526,008

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles. All funds of the City have legally adopted budgets.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget on several occasions using the above procedures.

NOTE 4 – DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. In addition, investments are separately held by several of the City funds. Deposits are not collateralized nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of City funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

government and which has been certified by the commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments for the City and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

A. Deposits

Deposits – Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2006, the City's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance</u> <u>June 30, 2006</u>
Regular Checking Account	Insured	<u>\$ 48,111</u>

B. Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or non-negotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
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The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIUF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006 the government had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities In Years			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 5,093,850	\$ 5,093,850	\$ -	\$ -	\$ -
Dreyfus Treasury Cash Management	786,110	786,110			
Total Fair Value	\$ 5,879,960	\$ 5,879,960	\$ -	\$ -	\$ -

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit Risk – The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices. The PTIF is unrated.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counter-party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's \$785,110 investment in Dreyfus Treasury Cash Management, are held by the investment's counter-party, not in the name of the City, and are not insured. The District does not have an investment policy for custodial credit risk.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
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The deposits and investments described above are included on the Statement of Net Assets as per the following reconciliation:

Deposits and Investments	\$ 144,959
Investments	5,879,960
Cash on Hand	<u>1,000</u>
Total Cash	<u>\$6,025,919</u>
Government-Wide	
Cash and Cash Equivalents	\$1,696,932
Restricted Cash and Cash Equivalents	3,810,627
Fiduciary Restricted Cash	<u>518,360</u>
Total Cash	<u>\$6,025,919</u>
Net Cash on Statement of Net Assets	<u>\$6,025,919</u>

NOTE 5 - RECEIVABLES

Receivables as of year end for the government's individual major fund and non major, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water	Electric	Sewer	Non Major Business Type	Non Major Governmt'l	Total
Receivables:							
Accounts	\$ -	\$ 235,999	\$ 1,047,406	\$ 194,755	\$ 339,694	\$ -	\$ 1,817,854
Property tax	737,378	-	-	-	-	-	737,378
Other taxes	429,933	-	-	-	-	-	429,933
Intergovernmental	109,964	-	-	-	-	106,332	216,296
Less allowance for uncollectible accounts	<u>-</u>	<u>-</u>	<u>(157,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(157,700)</u>
	<u>\$ 1,277,275</u>	<u>\$ 235,999</u>	<u>\$ 889,706</u>	<u>\$ 194,755</u>	<u>\$ 339,694</u>	<u>\$ 106,332</u>	<u>\$ 3,043,761</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (general fund)	<u>\$ -</u>	<u>\$ 659,659</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

NOTE 6 – INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	RDA Business Park	\$2,157,575
	Capital Projects	202,264
	Non Major Governmental	109,167
Electric	Sewer	184,510
	Non Major Governmental	17,742
Water	Sewer	82,126
	Non Major Enterprise	613,209
Non Major Governmental	Non Major Governmental	72,820
Non Major Enterprise	Non Major Enterprise	809,656
Internal Service Fund	Non Major Enterprise	17,742
Total		<u>\$4,266,811</u>

Inter-fund Transfers:

Transfer Out:	Transfers In:						Total
	<u>General</u>	<u>Capital Projects</u>	<u>Water</u>	<u>Electric</u>	<u>Internal Service</u>	<u>Non Major Enterprise</u>	
General	\$ -	\$ 864,345	\$185,000	\$540,516	\$ -	\$ -	\$1,589,861
Water	509,000	203,900			86,904		799,804
Electric	821,048				152,700		973,748
Sewer	836,268				50,000		886,268
Non Major Enterprise	436,667	250,000			77,758		764,425
Perpetual Care	15,000						15,000
Total Transfers Out	<u>\$2,617,983</u>	<u>\$1,318,245</u>	<u>\$185,000</u>	<u>\$540,516</u>	<u>\$367,362</u>	<u>\$ -</u>	<u>\$5,029,106</u>

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

Primary Government	Beginning			Ending
Governmental activities:	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 3,800,477	\$ -	\$ -	\$ 3,800,477
Infrastructure	14,377,025	590,680		14,967,705
Total capital assets not being depreciated	18,177,502	590,680	-	18,768,182
Capital assets being depreciated:				
Buildings	2,059,430			2,059,430
Improvements	5,172,261	563,969		5,736,230
Machinery and equipment	3,499,256	323,026		3,822,282
Total capital assets being depreciated	9,869,940	886,995	-	11,617,942
Less accumulated depreciation for:				
Buildings	(913,173)	(51,486)		(964,659)
Improvements	(1,057,912)	(398,167)		(1,456,079)
Machinery and equipment	(2,225,879)	(352,001)		(2,577,880)
Total accumulated depreciation	(4,196,964)	(801,654)	-	(4,998,618)
Total capital assets, being depreciated, net	6,533,983	85,341	-	6,619,324
Governmental activities capital assets, net	\$ 24,711,485	\$ 676,021	\$ -	\$ 25,387,506
	Beginning	Increases	Decreases	Ending
Business Type Activities				
Capital Assets, not being depreciated:				
Land	\$ 7,040,381	\$ -	\$ -	\$ 7,040,381
Water Shares	198,400	-	-	198,400
Total Capital Assets, not being depreciated	7,238,781	-	-	7,238,781
Capital Assets, Being depreciated				
Building	806,448	-	-	806,448
Improvements	48,649,023	2,266,360	-	50,915,383
Machinery and Equipment	3,793,162	706,260	165,436	4,333,986
Total Capital Assets, being depreciated	53,248,633	2,972,620	165,436	56,055,817

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

NOTE 6 – CAPITAL ASSETS (Continued)

Less Accumulated Depreciation				
Building	(168,378)	(23,823)	-	(192,201)
Improvements	(19,835,490)	(1,145,310)		(20,980,800)
Machinery and Equipment	(2,640,221)	(308,290)	(145,987)	(2,802,524)
Total accumulated depreciation	<u>(22,644,089)</u>	<u>(1,477,423)</u>	<u>(145,987)</u>	<u>(23,975,525)</u>
 Total Capital Assets, Being Depreciated, Net	 <u>30,604,544</u>	 <u>1,495,198</u>	 <u>19,449</u>	 <u>32,080,293</u>
 Business Activities Capital assets, net	 <u>\$ 37,843,325</u>	 <u>\$ 1,495,198</u>	 <u>\$ 19,449</u>	 <u>\$ 39,319,074</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 125,139
Public safety	148,557
Highways and public improvements	11,742
Economic Development	83,948
Parks and recreation	269,142
Capital assets held by the government's Internal Service	
Fund are charged to various functions based on their	
usage of assets	<u>163,126</u>
Total depreciation expense – governmental activities	<u>\$ 801,654</u>
Business – type activities:	
Water	\$ 277,295
Electric	471,578
Sewer	360,272
Solid Waste	143,594
Golf Course	177,175
Storm Drain	36,981
Ambulance	<u>10,527</u>
Total depreciation expense business-type activities	<u>\$1,477,422</u>
Total depreciation expense	<u>\$2,279,076</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

NOTE 7 - LEASE COMMITMENTS

The City over the past few years has executed various capital leases.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business Type</u>
Asset:		
Machinery and Equipment	\$1,505,500	\$1,466,418
Less: Accumulated Amortization	(176,828)	(702,840)
Total	<u>\$1,328,672</u>	<u>\$ 763,578</u>

Amortization of capital assets purchased under capital leases are included in depreciation.

The present value of future minimum capital lease payments under these leases as of June 30, 2006 are:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 777,650
2008	504,219
2009	110,427
2010	106,409
2011	<u>45,372</u>
Total minimum lease payments	1,544,077
Less amounts representing interest	(86,692)
Present value of minimum lease payments	<u>\$1,457,385</u>

At June 30, 2006, the City's capital leases payable balance consisted of the following:

	<u>Total Capital Leases Payable All Fund Types</u>
Capital Leases Payable	\$1,457,385
Current Portion Capital Leases Payable	(676,142)
Long Term Capital Leases Payable	<u>\$ 781,243</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

NOTE 8 – BONDS AND NOTES PAYABLE

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities:

As of June 30, 2006, the governmental long-term debt of the financial reporting entity consisted of the following:

Special Revenue Fund – RDA	
Tax Increment Revenue Bonds, Series 1998, 5.15%	
Dated March 1, 1997 (original amount \$1,130,000)	\$ 705,000
Special Improvement District No. 2001-1	
5.8%, (original amount \$2,500,000)	2,080,000
Special Assessment Bonds Series 1999	
4.5% to 5.8%, (original amount \$1,215,000)	543,000
Excise Tax Road bonds Series 2002	
2.35% to 3.7% (original amount \$811,000)	212,000
Excise Tax Road Bonds Series 2003	
1.80% to 2.75%, (original amount \$400,000)	102,000
Real Property Note, 5.01% (original \$305,000)	<u>305,000</u>
Total Bonds and Notes	3,947,000
Less Noncurrent	(3,262,918)
Current Portion	<u>\$ 684,082</u>
Capital lease	
2003 ball field leases, 3.19%	
(original amount \$1,505,500)	\$ 708,470
2002 Ladder truck 3.30% (original amount \$383,943)	
(Internal Service reported in government assets)	<u>95,329</u>
Total capital lease	803,799
Less Noncurrent	(414,361)
Current Portion	<u>\$ 389,438</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

NOTE 8 – BONDS AND NOTES PAYABLE (CONTINUED)

Business-type Activities:

As of June 30, 2006, the long-term debt payable from proprietary fund resources consisted of the following:

Electric Revenue Refunding Bonds, Series 1999, dated January 4, 1999, 3%-4.2% (original amount \$5,125,000)	\$1,360,000
Sewer Revenue Bonds, Series 2001, dated August 21, 2001 4% (original amount \$7,479,000)	6,412,000
Water Revenue and Refunding Series 2006, dated Feb. 1, 2006 3-5% (original amount \$9,445,000)	<u>9,290,000</u>
Total Bonds & Notes	17,062,000
Less non-current	<u>(15,863,000)</u>
Current portion	<u>\$ 1,199,000</u>

Capital Leases

2003 Golf Truck, 2.65% (original amount \$25,722)	\$ 9,774
2003 Golf Mower, 2.65% (original amount \$19,800)	7,523
2001 Golf Equipment, 4.75% (original amount \$33,050)	1,889
2006 Golf Carts 3.92% (original amount \$108,100)	91,494
2000 Grinder/screen/loader, 5.6% (original amount \$347,500)	174,603
2000 Grinder, 6.65% (original amount \$153,000)	77,129
2006 Golf Equipment 4.8% (original amount \$83,485)	82,251
2002 Golf Carts, 4.31% (original amount \$66,160)	13,226
2006 Dump Truck 4.38% (original amount \$206,508)	155,778
2002 Garbage Truck, 2.0-9% (original amount \$147,385)	19,486
2006 Golf Equipment 2.85% (original amount \$20,684)	12,291
2006 Golf Carts, 2.45% (original amount \$26,000)	<u>8,142</u>
Total Capital lease	653,586
Less Noncurrent	<u>(366,882)</u>
Current portion	<u>\$286,704</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

The future annual requirements for all outstanding bond and note obligations as of June 30, 2006 are as follows:

<u>Fiscal Year</u>	<u>All Bonds and Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,888,082	\$ 855,987	\$ 2,744,069
2008	1,643,894	785,641	2,429,535
2009	993,848	734,007	1,727,855
2010	1,076,956	730,246	1,807,202
2011	946,220	677,117	1,623,337
2012-2016	4,611,000	2,773,565	7,384,565
2017-2021	4,685,000	1,719,354	6,404,354
2022-2026	2,854,000	875,308	3,729,308
2027-2030	2,310,000	214,875	2,524,875
Total	<u>\$21,009,000</u>	<u>\$9,366,100</u>	<u>\$30,375,100</u>

Changes in Long Term Debt

<u>Government Activities</u>	<u>2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>2006</u>	<u>Due In One Year</u>
Bonds Payable					
Special Revenue - RDA	\$ 790,000	\$	\$ 85,000	\$ 705,000	\$ 85,000
SID No. 200101	2,195,000		115,000	2,080,000	120,000
Special Assessment Bond 1999	638,000		95,000	543,000	110,000
Excise Tax Road Bonds 2002	417,000		205,000	212,000	212,000
Excise Tax Road Bond 2003	201,000		99,000	102,000	102,000
Notes Payables	19,366	305,000	19,366	305,000	55,082
Capital Lease	1,214,200		410,401	803,799	389,438
Accrued Compensated Absences	407,505	46,434		453,939	
Govt Activities Long term debt	<u>\$ 5,882,071</u>	<u>\$ 351,434</u>	<u>\$ 1,028,767</u>	<u>\$ 5,204,738</u>	<u>\$ 1,073,520</u>

<u>Business Type Activities</u>	<u>2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>2006</u>	<u>Due In One Year</u>
Bonds payable					
2005 Water Rev & Refund. Bond	\$ 9,445,000	\$ -	\$ 155,000	\$ 9,290,000	\$ 240,000
1999 Electric Refunding Bond	2,000,000		640,000	1,360,000	665,000
2000 Sewer Bond	6,695,000		283,000	6,412,000	294,000
Capital Lease	475,471	398,093	219,978	653,586	286,704
Accrued Compensated Absence	399,902	19,811		359,713	
Water Share Liability	134,843	32,123		166,966	
Business-type Activ. Long term Debt	<u>\$ 19,090,216</u>	<u>\$ 450,027</u>	<u>\$ 1,297,978</u>	<u>\$ 18,242,265</u>	<u>\$ 1,485,704</u>

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

NOTE 9 – ACCRUED CLOSURE AND POSTCLOSURE CARE COSTS

Payson City is closing landfill parcels on an on-going basis as each land parcel is completely filled. State and Federal laws and regulations require Payson to place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfill, expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the cost to close the final cell through the end of the year. The estimated liability for landfill closure and post-closure care costs is \$893,170 as of June 30, 2006, which represents the cumulative amount reported to date based on the use of 63% of the estimated capacity of the landfill. The estimated total current cost of the landfill closure and post-closure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill are performed by Payson City.

However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Payson City estimated the remaining life of the landfill to be 26 years. As of June 30, 2006, \$52,845 was charged to closure and post-closure expenses.

NOTE 10 - RETIREMENT PLAN

Plan Description. Payson City Corporation contributes to the Local Governmental Noncontributory Retirement System, Public Safety Retirement System, and Fire Fighters Retirement System which are for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System, and Fire Fighters Retirement System which are for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah, 84102 or by calling 1-800-365-8772.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

Funding Policy. Payson City Corporation is required to contribute a percent of covered salary to the respective systems, 11.09% to the Noncontributory, and 19.34% to the Public Safety Noncontributory and 8.61% to the Firefighters Retirement System, respectively. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Payson City Corporation contributions to Noncontributory Retirement System for June 30, 2006, 2005 and 2004, were \$361,245, \$350,429 and \$284,751 respectively, and for the Public Safety retirement System the contributions for June 30, 2006, 2005, and 2004 were \$142,985, \$130,800 and \$106,340 respectively. For the Firefighter System the contribution for June 30, 2006, 2005 and 2004 were \$5,944, \$5,714 and \$4,929 respectively. The contribution was equal to the required contribution for each year.

401K Plan

The employees of the City also participate in a 401(K) deferred compensation plan. The amount of the employer contributions for the year ended June 30, 2006, 2005, and 2004 were \$4,575, \$5,135 and \$3,935 respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The City is involved in claims arising in the normal course of business. It is not possible to state the ultimate liability, if any, in these matters. In the opinion of management, such litigation will have no material effect on the financial operations of the City.

NOTE 11 - RESERVED FUND BALANCES

The City has reserved fund balance amounts for impact fees. The City has reserved net assets in the Proprietary Fund for unspent impact fees. These fees will be used to construct appropriate projects as designated by the impact fee ordinance. The City has reserved net assets in the Water Fund and fund balance in the Debt Service fund for the Debt Service requirement of the bonds acquired.

NOTE 12 - DEFICIT FUND BALANCES

The following funds had a deficit fund balance/retained earnings balance at June 30, 2006:

Redevelopment Agency – Business Park	(\$2,873,218)
Redevelopment Agency – Down Town	(200,251)
Golf Course	(770,809)

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

NOTE 13 - RISK MANAGEMENT

Payson City Corporation is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is unable to obtain insurance to cover the risk of losses related to torts at a cost it considers to be economically justifiable. The City participates in the Utah Local Governments Trust (a public entity risk pool). All claims are submitted to the Utah Local Governments Trust which acts as a commercial insurer. The Trust is obligated to pay all claims covered by its plan. The plan covers liability, theft, damages and other losses.

The City continues to carry commercial insurance for all other risks of loss, including theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage of any of the past three fiscal years.

NOTE 14 - EQUITY IN JOINT VENTURE

Payson City is a member of Utah Associated Municipal Power Systems (UAMPS), a separate legal entity and political subdivision of the State of Utah, which was formed pursuant to the provision of the Interlocal cooperation act. UAMPS' membership consists of 31 municipalities, including one joint action agency and one electric service district. In addition, one contract purchaser of power is also supplied by UAMPS. UAMPS was formed to plan, finance, develop, acquire, construct, improve, operate, or maintain projects for the generation, transmission, and distribution of electric energy for the benefit of its members.

The City is a 19.99 percent participant in the operation of a joint agency project (Craig-Mona Transmission Project). As a participant in the project, Payson City is obligated for 19.99 percent of the debt service on approximately \$3,765,000 bonds outstanding at June 30, 2006, (or \$752,624) issued to finance the acquisition of the project. Under the terms of the agreement, the operational costs and debt service requirements are reflected in the cost of power purchased. No separate payments are made to UAMPS under this agreement.

Separate compiled financial statements for UAMPS may be obtained from the Manager of Finance at 2825 East Cottonwood Parkway, suite 200, Salt Lake City, Utah 84121-7077.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2006

NOTE 15 – REDEVELOPMENT AGENCY

The Payson City Redevelopment Agencies were established to further public purposes in the redevelopment of certain City areas. For the year ended June 30, 2006, the following activity occurred in the City's redevelopment agencies.

Business Park

Tax increment collection from other taxing agencies for various project areas	\$153,143
Proceeds from sale of assets	-
Outstanding loans to finance RDA projects	705,000
Amounts expended for site improvements and preparation costs	44,081
Amounts expended for administrative costs	52,141

Down Town

Tax increment collection from other taxing agencies for various project areas	\$167,713
Proceeds from sale of assets	-
Outstanding loans to finance RDA projects	-
Amounts expended for site improvements and preparation costs	-
Amounts expended for administrative costs	70,195

REQUIRED SUPPLEMENTARY INFORMATION

PAYSON CITY CORPORATION
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes:				
Property Taxes	\$ 701,740	\$ 733,000	\$ 736,350	\$ 3,350
General Sales Taxes	1,850,000	2,023,000	2,128,181	105,181
Motor Vehicle Taxes	120,000	135,000	146,898	11,898
Utility Taxes	711,516	945,000	926,683	(18,317)
Other Taxes	327,395	275,068	275,575	507
Licenses and Permits	397,000	235,434	245,298	9,864
Intergovernmental	654,763	748,710	890,055	141,345
Charges for Services	615,894	613,814	611,674	(2,140)
Fines and Forfeitures	147,500	150,255	152,295	2,040
Interest	20,000	53,000	57,426	4,426
Miscellaneous	850	66,242	72,932	6,690
Total Revenues	5,546,658	5,978,523	6,243,367	264,844
Expenditures				
Current:				
General Government:				
Administrative	1,183,248	1,202,677	1,207,520	(4,843)
Planning and Zoning	-	654,800	578,514	76,286
Building Maintenance	342,722	385,193	384,327	866
Judicial	152,781	152,781	145,216	7,565
Non-Departmental	807,129	158,828	132,991	25,837
Total General Government	2,485,880	2,554,279	2,448,568	105,711
Public Safety:				
Police Administration	1,795,042	1,800,163	1,721,560	78,603
Fire Administration	353,837	386,837	352,197	34,640
Victims Advocate	59,541	70,408	57,539	12,869
Animal Control	84,821	84,821	65,576	19,245
Total Public Safety	2,293,241	2,342,229	2,196,872	145,357
Highways and Streets:				
Streets and Sidewalks	601,002	601,002	518,094	82,908
Class "C" Road	400,000	80,000	148,519	(68,519)
Total Highways and Streets	1,001,002	681,002	666,613	14,389
Economic Development:				
Senior Citizens	86,155	114,241	107,506	6,735
Community Events	126,673	126,672	89,324	37,348
Total Economic Development	212,828	240,913	196,830	44,083
Parks and Recreation:				
Parks	160,502	160,503	160,307	196
Swimming Pool	124,516	126,516	124,174	2,342
Library	298,000	307,060	272,250	34,810
Ground Mowing	210,486	210,486	174,915	35,571
Recreation and Culture	343,919	338,053	312,580	25,473
Youth Sports	140,500	148,000	142,082	5,918
Adult Sports	70,400	70,400	69,917	483
Snack Shack	42,783	50,782	49,649	1,133
Total Culture and Recreation	1,391,106	1,411,800	1,305,874	105,926
Cemetery	93,878	93,878	96,275	(2,397)
Debt Service:				
Interest and Fiscal Charges	-	325,000	328,038	(3,038)
Capital Outlay	-	4,000	228,710	(224,710)
Total Expenditures	7,477,935	7,653,101	7,467,780	185,321
Excess of Revenues Over (Under) Expenditures	(1,931,277)	(1,674,578)	(1,224,413)	450,165
Other Financing Sources (Uses)				
Proceeds of Notes			305,000	305,000
Transfers In	2,643,893	2,625,983	2,617,983	(8,000)
Transfers Out	(711,516)	(1,593,161)	(1,589,861)	3,300
Total Other Financing Sources (Uses)	1,932,377	1,032,822	1,333,122	300,300
Net Change in Fund Balance	1,100	(641,756)	108,709	750,465
Fund Balance Beginning of Year	3,598,108	3,598,108	3,598,108	-
Fund Balance End of Year	\$ 3,599,208	\$ 2,956,352	\$ 3,706,817	\$ 750,465

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
Redevelopment Agency
Business Park
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Totals</u>	<u>Final Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
REVENUES				
Property Taxes	\$ 250,000	\$ 153,143	\$ 153,143	\$ -
Total Revenues	<u>250,000</u>	<u>153,143</u>	<u>153,143</u>	<u>-</u>
EXPENDITURES				
Economic Development	103,170	59,053	52,141	6,912
Debt Service	146,830	146,830	43,471	103,359
Capital Outlay	-	44,120	44,081	39
Total Expenditures	<u>250,000</u>	<u>250,003</u>	<u>139,693</u>	<u>110,310</u>
Excess (deficit) of revenues over (under) expenditures	<u>-</u>	<u>(96,860)</u>	<u>13,450</u>	<u>110,310</u>
OTHER FINANCING SOURCES (USES)				
Net Change in Fund Balance	-	(96,860)	13,450	110,310
Fund balances - beginning	<u>(2,886,668)</u>	<u>(2,886,668)</u>	<u>(2,886,668)</u>	<u>-</u>
Fund balances - ending	<u>\$ (2,886,668)</u>	<u>\$ (2,983,528)</u>	<u>\$ (2,873,218)</u>	<u>\$ 110,310</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY

Ratings for the City's Road System For the Year Ended June 30, 2006

As allowed by GASB Statement 34, the City has adopted the modified approach for reporting, where infrastructure assets are not depreciated, and maintenance and preservation costs are expensed. The City capitalizes costs related to new construction or major replacements under the modified approach.

In order to utilize the modified approach, the City is required to:

1. Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
2. Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.
3. Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level disclosed by the City.
4. Document that the infrastructure assets are being preserved approximately at, or above the condition level established by the City.

The City has used an inventory system that evaluates the Condition and Safety of its roads. This system rates good roads with a high value and poor roads with a low value by road type. Roads are re-inventoried each year to determine current condition and safety needs. Roads in each road type with low values are then targeted for maintenance in the coming budget year.

On June 30, 2006, the City has 120 center lane miles of paved road.

It is the City's policy to maintain its roads at or above the average rating for each class of roads.

Over the last five reporting years, the estimated amounts needed and actual expenditures utilized to maintain and preserve the City's road system are as follows (capital expenditures are not included):

<u>Year</u>	<u>Budgeted</u>	<u>Expenditures</u>
2002	\$741,500	\$454,791
2003	585,500	683,767
2004	226,383	223,119
2005	372,986	368,768
2006	82,500	181,189

SUPPLEMENTAL INFORMATION

PAYSON CITY CORPORATION
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue Funds							Total Nonmajor Governmental Funds
	RDA Downtown	Impact Fee Parks	Impact Fee Public Safety	CDBG Grant	Debt Service	Perpetual Care	Revolving Loan	
Assets								
Due From Other Funds	\$ -	\$ 45,736	\$ 6,885	\$ 4,709	\$ 14,631	\$ 545	\$ 314	\$ 72,820
Accounts Receivable	-	106,332	-	-	-	-	-	106,332
Notes Receivable	-	-	-	-	-	-	60,259	60,259
Restricted Assets:								
Cash and Cash Equivalents	-	287,410	147,164	-	-	212,298	306,062	952,934
Total Assets	\$ -	\$ 439,478	\$ 154,049	\$ 4,709	\$ 14,631	\$ 212,843	\$ 366,635	\$ 1,192,345
Liabilities								
Accrued Liabilities	\$ 522	-	-	-	-	-	-	\$ 522
Due To Other Funds	199,729	-	-	-	-	-	-	199,729
Total Liabilities	200,251	0	0	0	0	0	0	200,251
Fund Balances								
Reserved for:								
Debt Service	-	-	-	-	14,631	-	-	14,631
Impact Fees	-	439,478	154,049	-	-	-	-	593,527
Grant Funds	-	-	-	4,709	-	-	-	4,709
Unreserved:								
Undesignated (Deficit), Reported in:								
Permanent Fund	-	-	-	-	-	212,843	366,635	579,478
Special Revenue Funds	(200,251)	-	-	-	-	-	-	(200,251)
Total Fund Balances (Deficits)	(200,251)	439,478	154,049	4,709	14,631	212,843	366,635	992,094
Total Liabilities and Fund Balances	\$ -	\$ 439,478	\$ 154,049	\$ 4,709	\$ 14,631	\$ 212,843	\$ 366,635	\$ 1,192,345

PAYSON CITY CORPORATION
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue Funds							Total Nonmajor Governmental Funds
	RDA Downtown	Impact Fee Parks	Impact Fee Public Safety	CDBG Grant	Debt Service	Perpetual Care	Revolving Loan	
Revenues								
Taxes:								
Property	\$ 167,713	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167,713
Intergovernmental	-	106,332	-	-	-	-	-	106,332
Special Assessments	-	-	-	-	131,380	-	-	131,380
Charges for Services	-	-	-	-	-	18,685	-	18,685
Interest	-	17,056	5,712	-	-	8,736	13,771	45,275
Total Revenues	167,713	123,388	5,712	-	131,380	27,421	13,771	469,385
Expenditures								
Current:								
Highways and Streets	-	-	-	-	-	-	-	-
Economic Development	70,195	-	-	-	-	-	-	70,195
Debt Service:								
Principal Retirement	19,326	-	-	-	95,000	-	-	114,326
Interest and Fiscal Charges	-	-	-	-	32,285	-	-	32,285
Capital Outlay:								
Highways and Streets	-	-	-	-	-	-	-	-
Parks and Recreation	-	324,713	-	-	-	-	-	324,713
Economic Development	-	-	16,908	-	-	-	-	16,908
Total Expenditures	89,521	324,713	16,908	-	127,285	-	-	558,427
Excess of Revenues Over (Under) Expenditures	78,192	(201,325)	(11,196)	-	4,095	27,421	13,771	(89,042)
Other Financing Sources (Uses)								
Impact Fees	-	244,800	42,930	-	-	-	-	287,730
Transfer In (Out)	-	-	-	-	-	(15,000)	-	(15,000)
Total Other Financing Sources (Uses)	-	244,800	42,930	-	-	(15,000)	-	272,730
Net Change in Fund Balances	78,192	43,475	31,734	-	4,095	12,421	13,771	183,688
Fund Balances (Deficits) Beginning of Year -	(278,443)	396,003	122,315	4,709	10,536	200,422	352,864	808,406
Fund Balances (Deficits) End of Year	\$ (200,251)	\$ 439,478	\$ 154,049	\$ 4,709	\$ 14,631	\$ 212,843	\$ 366,635	\$ 992,094

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2006

	Business Type Activities - Enterprise Funds				
	Solid Waste	Golf Course	Storm Drain	Ambulance	Total
Assets					
Current Assets:					
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Receivable (Net of Allowance for Uncollectables)	173,950	-	82,144	83,600	339,694
Due From Other Funds	357,197	-	235,561	216,898	809,656
Prepaid Items	-	-	-	-	-
Total Current Assets	531,147	-	317,705	300,498	1,149,350
Noncurrent Assets:					
Restricted Assets:					
Cash and Cash Equivalents	474,980	-	-	-	474,980
Capital Assets:					
Land	55,123	-	-	-	55,123
Buildings	130,136	230,951	152,370	-	513,457
Improvements	358,290	1,830,120	1,097,400	10,254	3,296,064
Machinery and Equipment	1,487,274	992,842	316,008	441,799	3,237,923
Less Accumulated Depreciation	(1,076,879)	(2,087,371)	(204,408)	(305,524)	(3,674,182)
Total Capital Assets, Net	953,944	966,542	1,361,370	146,529	3,428,385
Total Noncurrent Assets	1,428,924	966,542	1,361,370	146,529	3,903,365
Total Assets	1,960,071	966,542	1,679,075	447,027	5,052,715
Liabilities					
Current Liabilities:					
Accrued Liabilities	5,522	10,612	1,582	899	18,615
Due to Other Funds	-	1,440,607	-	-	1,440,607
Compensated Absences Payable	42,477	59,542	22,184	-	124,203
Capital Leases Payable	71,963	71,209	143,531	-	286,703
Total Current Liabilities	119,962	1,581,970	167,297	899	1,870,128
Current Liabilities Payable from Restricted Assets:					
Customer Deposits Payable	-	-	-	-	-
Total Current Liabilities Payable from Restricted Assets	-	-	-	-	-
Long-Term Liabilities:					
Capital Leases Payable (net of current portion)	199,255	155,381	12,247	-	366,883
Closure and Postclosure Liability	893,170	-	-	-	893,170
Water Share Liability	-	-	-	-	-
Total Long-Term Liabilities	1,092,425	155,381	12,247	-	1,260,053
Total Liabilities	1,212,387	1,737,351	179,544	899	3,130,181
Net Assets					
Invested in Capital Assets, Net of Related Debt	682,726	739,952	1,205,592	146,529	2,774,799
Restricted for:					
Landfill Closure Costs	474,980	-	-	-	474,980
Unrestricted	(410,022)	(1,510,761)	293,939	299,599	(1,327,245)
Total Net Assets	\$ 747,684	\$ (770,809)	\$ 1,499,531	\$ 446,128	\$ 1,922,534

PAYSON CITY CORPORATION
Combining Statement of Revenues,
Expenses and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2006

	Business Type Activities - Enterprise Funds				
	Solid Waste	Golf Course	Storm Drain	Ambulance	Total
Operating Revenues					
Charges for Services	\$ 1,319,207	\$ 586,852	\$ 515,269	\$ 274,026	\$ 2,695,354
Miscellaneous	163,178	26,545	11,992	-	201,715
Total Operating Revenues	1,482,385	613,397	527,261	274,026	2,897,069
Operating Expenses					
Costs of Sales and Services	460,538	477,647	155,558	148,050	1,241,793
Maintenance Operations and Contractual Services	241,111	29,456	148,727	12,631	431,925
Materials and Supplies	54,397	126,215	8,042	18,345	206,999
Depreciation	143,594	177,175	36,981	10,527	368,277
Amortization	-	-	-	-	-
Total Operating Expenses	899,640	810,493	349,308	189,553	2,248,994
Operating Income (Loss)	582,745	(197,096)	177,953	84,473	648,075
Non-Operating Revenues (Expenses)					
Interest Income	19,631	-	-	-	19,631
Impact Fees	-	-	-	-	-
Grant Revenue	-	-	-	34,403	34,403
Gain (Loss) on Sale of Fixed Assets	-	8,551	-	-	8,551
Interest and Fiscal Charges	(23,261)	(9,085)	(3,895)	-	(36,241)
Total Non-Operating Revenues (Expenses)	(3,630)	(534)	(3,895)	34,403	26,344
Income (Loss) before Capital Contributions and Transfers	579,115	(197,630)	174,058	118,876	674,419
Capital Contributions	-	-	136,112	-	136,112
Transfers In	-	-	-	-	-
Transfers Out	(719,380)	(17,770)	(13,775)	(13,500)	(764,425)
Change in Net Assets	(140,265)	(215,400)	296,395	105,376	46,106
Net Assets Beginning of Year	887,949	(555,409)	1,203,136	340,752	1,876,428
Net Assets End of Year	\$ 747,684	\$ (770,809)	\$ 1,499,531	\$ 446,128	\$ 1,922,534

PAYSON CITY CORPORATION
Combining Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Business Type Activities - Enterprise Funds				
	Solid Waste	Golf Course	Storm Drain	Ambulance	Total
Cash Flows from Operating Activities					
Receipts from Customers and Users	\$ 1,528,480	\$ 613,397	\$ 518,540	\$ 253,686	\$ 2,914,103
Payments to Employees for Services	(297,834)	(294,473)	(97,630)	(91,098)	(781,035)
Payments for Goods and Services	(386,147)	(206,674)	(362,731)	(180,353)	(1,135,905)
Other Cash Payments	-	-	-	-	-
Net Cash Provided by (Used in) Operating Activities	844,499	112,250	58,179	(17,765)	997,163
Cash Flows from Noncapital Financing Activities					
Operating Grants Received	-	-	-	34,403	34,403
Transfers to Other Funds	(719,380)	(17,770)	(13,775)	(13,500)	(764,425)
Transfers from Other Funds	-	-	-	-	-
Net Cash Provided by (Used in) Noncapital Financing Activities	(719,380)	(17,770)	(13,775)	20,903	(730,022)
Cash Flows from Capital and Related Financing Activities					
Proceeds from Sale of Revenue Bonds	-	-	-	-	-
Impact Fees	-	-	-	-	-
Proceeds from Capital Leases	-	191,585	206,508	-	398,093
Proceeds from Sale of Assets	-	-	-	-	-
Principal Paid on Revenue Bonds	-	-	-	-	-
Interest Paid on Revenue Bonds	-	-	-	-	-
Principal Paid on Capital Leases	(95,405)	(73,845)	(50,729)	-	(219,979)
Interest Paid on Capital Leases	(23,261)	(9,085)	(3,895)	-	(36,241)
Payments for Capital Acquisitions	(114,380)	(203,135)	(290,518)	(127,536)	(735,569)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(233,046)	(94,480)	(138,634)	(127,536)	(593,696)
Cash Flows from Investing Activities					
Interest Income Received	19,631	-	-	-	19,631
Net Increase (Decrease) in Cash and Cash Equivalents	(88,296)	-	(94,230)	(124,398)	(306,924)
Cash and Cash Equivalents Beginning of Year	563,276	-	94,230	124,398	781,904
Cash and Cash Equivalents End of Year	\$ 474,980	\$ -	\$ -	\$ -	\$ 474,980
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities					
Operating Income (Loss)	\$ 582,745	\$ (197,096)	\$ 177,953	\$ 84,473	\$ 648,075
Adjustments:					
Depreciation	143,594	177,175	36,981	10,527	368,277
Amortization	-	-	-	-	-
(Increase) Decrease in Assets:					
Accounts Receivable	46,095	-	(8,721)	(20,340)	17,034
Allowance for Uncollectable Accounts	-	-	-	-	-
Due From Other Funds	18,271	-	(149,193)	(91,213)	(222,135)
Increase (Decrease) in Liabilities:					
Accrued Liabilities	(2,142)	(7,685)	975	(1,212)	(10,064)
Customer Deposits	-	-	-	-	-
Performance Bond	-	-	-	-	-
Compensated Absences Payable	3,091	8,440	184	-	11,715
Water Share Liability	-	-	-	-	-
Accrued Interest	-	-	-	-	-
Due to Other Funds	-	131,416	-	-	131,416
Closure and Postclosure Care	52,845	-	-	-	52,845
Net Cash Provided by (Used in) Operating Activities	\$ 844,499	\$ 112,250	\$ 58,179	\$ (17,765)	\$ 997,163
Noncash investing, capital, and financing activities:					
Contributions of capital assets from developers	-	-	136,112	-	136,112

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY
Impact Fees Schedule
For The Year Ended June 30, 2006

Payson City collects public safety, parks, water, electric, and sewer impact fees. The following is a recap of the impact fees outstanding by year of collection:

Year Collected	Public Safety	Parks	Water	Electric	Sewer	Total
2004	\$ 32,954	\$ -	\$ -	\$ -	\$ -	\$ 32,954
2005	78,165	194,678	-	89,794	-	362,637
2006	42,930	244,800	93,788	159,157	67,131	607,806
Total	\$ 154,049	\$ 439,478	\$ 93,788	\$ 248,951	\$ 67,131	\$ 1,003,397

The following capital projects are planned to use the impact fees shown above:

CAPITAL PROJECT PLANNED	Estimated Starting Date	Project Cost	Type of Impact Fee
Hollow Park Improvements Trail Loop (Landscaping 170,600 sq.ft.)	Sep 2006	\$ 15,000	Park/Recreation
Trail from Dry Creek Park to SR198 U-Pass (1300 Feet of Trail, Landscaping 24,000 sq.ft.)	Aug 2006	63,000	Park/Recreation
Pozon Park (Sprinkler System & Landscaping along trail)	Apr 2007	16,000	Park/Recreation
Memorial Park Sprinkler System (Install Sprinkler system where needed)	Apr 2007	10,000	Park/Recreation
Improvements at Four Bay Pond (Combine existing 3 ponds into one improved pond)	Aug 2006	12,000	Park/Recreation
Business Park Ph 3 Install Dist. System	2007	200,000	Electric
Refurbish Payco Subs Ch Voltage to 12KV	2007	150,000	Electric
Substation Capacity Southeast Part of City	2007	2,000,000	Electric
Conductor Upgrade 800 South Main to Frwy	2007	75,000	Electric
Ambulance, remodel inside, replace HVAC	2007	100,000	Public Safety
Dry Creek Park Improvements (sprinkler system, landscaping, playground, sand volleyball)	Apr 2007	65,000	Park/Recreation
Memorial Park Fountain Pond (Build new fountain in the northwest pond)	Apr 2007	5,000	Park/Recreation
Trail Dry Creek-Canyon Rd to Main Phase I (1200 Ft of Trail)	Apr 2007	150,000	Park/Recreation
Trail East Side Canyon Rd 850S-1100S Phase II (Landscaping 21,000 sq.ft.)	Apr 2007	21,000	Park/Recreation
Upgrade UG Lines from Payco	2008	250,000	Electric
Substation capacity Southwest Part of City	2008	2,000,000	Electric
Conductor Upgrade Frwy Main to 400 N	2008	68,000	Electric
Reclosure Changeout Downtown Sub	2008	150,000	Electric
Reclosure Changeout Race Track Sub	2007	150,000	Electric
Pavilion & Parking at Canyon Park (Additional parking lot and pavilion)	Apr 2008	61,000	Park/Recreation
Trail Dry Creek-Canyon Rd to Main Phase II (Landscaping 21,000 sq.ft.)	Apr 2008	21,000	Park/Recreation
Conductor Upgrade Frwy 400 N to 200 N	2009	51,000	Electric
Substation/Capacity Below Golf Course	2009	2,000,000	Electric
Hollow Park Improvements Phase IV (Pavilion and Parking Lot)	Apr 2009	257,989	Park/Recreation
Park Improvements in Mower Annex (1200 ft of Trail, landscaping, soccer field, picnic tables)	Apr 2009	346,000	Park/Recreation
Replace All Trails at Memorial Park (1650 ft of trail)	Apr 2009	46,000	Park/Recreation
Trans Line Extension Am Way to 1400 S.	2010	1,290,000	Electric
Conductor Upgrade Frwy 200 N to 100 W	2010	101,000	Electric
2nd Fire Department, Ambulance, Police Station	2010	1,000,000	Public Safety
Park Improvements in North Payson Annex (trail, landscaping, soccer field, picnic tables, playground)	Apr 2010	250,000	Park/Recreation
Trail from Skate Park to Pozon Park Phase I (1400 Ft. of trail)	Apr 2010	42,500	Park/Recreation

GOVERNMENT AUDITING STANDARDS REPORT

STATE COMPLIANCE REPORT

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
City of Payson, Utah

December 18, 2006

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City as of and for the year ended June 30, 2006, which collectively comprise Payson City's basic financial statements and have issued our report thereon dated December 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Payson City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Payson City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However we noted certain matters that we reported to management of Payson City in a separate letter dated December 18, 2006.

This report is intended solely for the information of management, Utah State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

GILBERT & STEWART

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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE WITH APPLICABLE UTAH STATE LAWS AND REGULATIONS

Honorable Mayor and City Council
City of Payson, Utah

December 18, 2006

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City for the year ended June 30, 2006, and have issued our report thereon dated December 18, 2006. As part of our audit, we have audited Payson City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major state assistance programs from the State of Utah:

B & C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)
Division of Wildlife Resources (Department of Natural Resources)

Our audit also included testwork on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other General Compliance Requirements
Impact Fees and Other Development Fees
Justice Court
Department of Commerce
Asset Forfeiture

The management of Payson City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those

standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Payson City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

This report is intended solely for the information of management and Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART
Certified Public Accountants

PAYSON CITY
MANAGEMENT LETTER

JUNE 30, 2006

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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December 18, 2006

Payson City
Payson, UT

We have audited the financial statements of Payson City for the year ended June 30, 2006 and have issued our report thereon dated December 18, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Payson City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Payson City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Payson City are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Payson City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Payson City's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing our audit.

Utah State Legal Compliance Findings – Current Year

06-1 General Compliance – Other Compliance

Finding: Utah State law states that the maximum fund balance in the general fund may not exceed 18% of the total estimated revenue of the general fund. We noted that the general fund was in excess of the 18%.

Recommendation: We recommend that the City make necessary budget adjustments to bring the City into Compliance with State law.

City's Response: Payson City has planned some projects to reduce the General Fund balance and there is a large deficit in the RDA/EDA Fund Balance. We haven't felt good about forgiving the debt in the RDA/EDA, until we knew what the new State laws would be regarding RDA's and whether we would be able to receive haircut money. Once that balance is transferred from the General Fund to the RDA/EDA, our General Fund Balance will be brought down within the State limits. Also see explanation in the MD&A in the audit report.

06-2 General Compliance – Other Compliance

Finding: State law prohibits any fund from maintaining a deficit equity balance. We noted the following funds had negative fund balances as of June 30, 2006.

Redevelopment Agency – Business Park	(\$2,873,218)
Redevelopment Agency – Down Town	(\$ 200,251)
Golf Course Fund	(\$ 770,809)

Recommendation: We recommend that the city make necessary budget adjustments including transfers to bring the respective fund into compliance with state law.

City's Response: As noted in the first finding, the General Fund Balance has been kept too high to cover the deficit in these other funds.

06-3 General Compliance – Department of Commerce

Finding: Utah State Law requires each municipality to file a quarterly report indicating the total amounts collected for building permits. These reports are to be filed no later than 30 days following the end of each quarter. We noted that the reports were not filed within the allotted time frame.

Recommendation: We recommend that the City start filing the required reports in the time mandated by State law.

City's Response: Payson City has now hired a new employee to file the quarterly building permit reports. We feel that this problem will now be corrected.

06-4 General Compliance – Budgetary Compliance

Finding: Officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. We noted that the Debt Service and Capital Outlay for the Highway and Street Department. The General Fund incurred expenditures in excess of the budget by \$3,038 and \$224,710 respectively.

Recommendation: We recommend that the City keep expenditures within the approved budget.

City's Response: We concur with the finding. We will work toward budgeting properly and maintaining expenditures within the approved budget.

Utah State Legal Compliance – Prior Year:

05-1 General Compliance – Other Compliance

Finding: Utah State law states that the maximum fund balance in the general fund may not exceed 18% of the total estimated revenue of the general fund. We noted that the general fund was in excess of the 18%

Recommendation: We recommend that the City make necessary budget adjustments to bring the City into Compliance with State law.

Current Status: See current year finding 06-1.

05-2 General Compliance – Other Compliance

Finding: State law prohibits any fund from maintaining a deficit equity balance. We noted the following funds had negative fund balances as of June 30, 2005.

Redevelopment Agency – Business Park	(\$2,886,668)
Redevelopment Agency – Down Town	(\$ 278,443)
Capital Projects Fund	(\$ 327,910)
Golf Course Fund	(\$ 555,409)

Recommendation: We recommend that the city make necessary budget adjustments including transfers to bring the respective fund into compliance with state law.

Current Status: See current year finding 06-2.

05-3 General Compliance – Department of Commerce

Finding: Utah State Law requires each municipality to file a quarterly report indicating the total amounts collected for building permits. These reports are to be filed no later than 30 days following the end of each quarter. We noted that the reports were not filed within the allotted time frame.

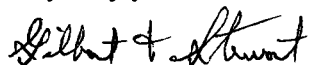
Recommendation: We recommend that the City start filing the required reports in the time mandated by State Law.

Current Status: See current year finding 06-3.

We wish to express our appreciation to the city personnel for the friendly and enthusiastic help extended to us during the course of our examination.

This information is intended solely for the use of the management of Payson City, and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,



GILBERT & STEWART

Certified Public Accountants



Mayor
Burtis J. Bills

Councilmembers
Brent Burdick
Brent Grotegut
Stephen G. Hanson
Scott Phillips
Larry D. Skinner

March 26, 2007

MacRay A. Curtis, CPA
Utah State Auditor's Office
Utah State Capitol Complex
East Office Building, Suite E310
PO Box 142310
Salt Lake City, UT 84114-2310

Dear Mr. Curtis:

I'm writing this letter in response to the letter Payson City received from the Office of the Utah State Auditor dated March 19, 2007 regarding noncompliances in our 2006 Audit Report. We are submitting a written corrective action plan to address the areas of noncompliance.

General Fund Balance:

Payson City is carrying a Fund Balance in the General Fund over the 18% allowable. The RDA Funds however have a large negative Fund Balance. The City hasn't felt good about forgiving the debt in the RDA/EDA, until we knew what new State laws would be regarding RDA's and whether we would be able to receive haircut money. Once that balance is transferred from the General Fund to the RDA/EDA, our General Fund Balance will be brought down within the State limits.

Deficit Balances:

The Redevelopment Agency - Down Town (RDA), and Redevelopment Agency - Business Park (EDA) both have negative fund balances. The General Fund Balance has been kept too high to cover these deficits. After the life of the RDA's and possible haircut money is received, the City Council will have to forgive these deficits and make the necessary transfers from the General Fund to the RDA Funds. Until that time, we will probably continue to have this problem.

Department of Commerce:

Payson City has hired a new secretary in the Development Services Department that is making sure that these quarterly reports are being filed no later than 30 days following the end of each quarter.

Budgetary Compliance:

There was an oversight and the Highway and Street Department had a project that began in June and the budget for that was not approved to begin until July 1st. Manager Andy Hall has explained to all department heads that managing their budgets is part of their fiscal responsibility as a department head, and will be part of their personnel performance evaluations.

I hope this letter will suffice for the required corrective action. If not, or you have any questions; please call Jeanette Curtis at 801-465-5205. Thank you.

Sincerely,

Jeanette Curtis
Jeanette Curtis

Payson City Recorder

Payson City Corporation

439 West Utah Avenue, Payson, UT 84651 (801) 465-5200 Fax (801) 465-5208